

**TESTIMONY OF WILLIAM H. GATES, SR  
ON BEHALF OF RESPONSIBLE WEALTH**

BEFORE THE SENATE COMMITTEE ON FINANCE  
SUBCOMMITTEE ON TAXATION AND IRS OVERSIGHT

PRESERVING AND PROTECTING FAMILY BUSINESS LEGACIES

MARCH 15, 2001

Mr. Chairman and Members of the Subcommittee on Taxation and IRS Oversight:

My name is William H. Gates, Sr. I live in Seattle, Washington having been a resident of the Seattle area all of my life. I am 75 and have been engaged in the private practice of law in Seattle for 48 years. I am a graduate of the University of Washington and of the University of Washington Law School. I am representing Responsible Wealth, a national association of business leaders and investors concerned about economic inequality in America.

There is a misconception about who the over 700 individuals are who have signed the Call to Preserve the Estate Tax. We do have super-wealthy individuals like George Soros, Ted Turner, Julian Robertson, and Paul Brainerd who have signed on. But the majority of the signers are like the individuals who are testifying before this panel. They are the "millionaires next door," as described in the recent book by Thomas Stanley and William Danko, those with wealth between one and ten million dollars. Many of the signers have family enterprises and will pay estate taxes. And yet they believe it would be bad for our country to completely repeal it.

I believe, with Theodore Roosevelt, Louis Brandeis, Herbert Hoover and scores of other wise observers in the early 1900s that it is not in the interest of this country to have large fortunes passed from generation to generation forming ever larger pools of money and accretion of power. While the estate tax does not completely prevent such transfer it does make serious inroads on what would, without it, be an ever increasing, inexorable build up of a larger and larger pool of money.

While we may not be able to insure that all children start their lives on a level playing field, that is something we should strive for and the estate tax does keep us closer to that ideal. A good life should be something which is achieved. It should not be delivered as a result of the womb you happened to start out from.

I think the estate tax is an appropriate tax and I accept it, as I do federal income taxes, as the price of living in the United States and being a U.S. citizen. It is appropriate that a special tax be imposed on those who have so very fully enjoyed the benefit of the things this country provides: schooling, order, freedom and encouragement to succeed and models of success. In a very practical sense, the wealth one accumulates derives as much from the environment which this grand nation makes available and it is perfectly appropriate that the cost of its maintenance be paid back in proportion to what has been extracted.

In the present setting when new tax packages are being designed it seems to me particularly bad policy to subtract from the necessary revenue the sums produced by the estate tax when those dollars are going to have come from somewhere else--someone else. It is perfectly clear that that someone else will be a citizen with much less ability to pay than the heirs of our wealthiest people. Let me add here that I am doubtful that the true fiscal impact of repeal has been accurately projected. Revenues from this tax will grow dramatically in the future. The personal wealth that has been created in this country in the last 10 or 20 years is immense and will be

reflected in sharply increased estate tax revenues.

I understand that the purpose of this hearing is to consider the merits of the estate tax and whether it should be reformed or repealed. I don't think the Committee can make an informed decision on that issue without considering the impact of the estate tax on other activities, such as charitable giving. As co-chairman of the nation's largest charitable foundation, I believe that repeal of estate tax will be harmful to our charitable institutions and vital civic sector. I believe Americans are generous people --and are motivated to give to charity by concerns other than the tax code. But the estate tax is a powerful incentive for charitable giving, particularly among households with estates valued over \$20 million. I do not think we know what the full consequences of wholesale repeal will be on our nation's hospitals, universities, land conservancies and private charities.

There was a hearing yesterday before the Senate Finance Committee on encouraging charitable giving. I understand that one fundamental premise of that hearing was that making charitable contributions tax deductible for non-itemizers would encourage charitable giving. I don't see how one could distinguish the type of encouragement underlying that hearing from the type of encouragement provided by the estate tax. The biggest difference is, I believe, that the taxpayers affected by the estate tax typically have far more to give than taxpayers that do not itemize their deductions for federal income tax purposes. What is good for the income tax must certainly be good for the estate tax.

People oppose the estate tax claiming it is "not fair." Each tax that we have will elicit those who feel this way. But I ask "Fair compared to what?" Is it unfair to tax the accumulated wealth of the richest 1% of households, much of which is in the form of unappreciated capital gains that have never been taxed? Is it more fair to tax the wages of low wage workers trying to survive today? Is it fairer than a sales tax or property tax? I accept that we must have taxation -and that within the spectrum of taxes -the estate tax is among the most fair.

I do not deny that there are some few situations where the application of the estate tax leads to a result which is undesirable. An example would be the rare case where a second or third generation is prevented from continuing a family business because of the requirement to pay a tax on that asset. There are special provisions in the tax code aimed to avoid this result and these work in lots and lots of cases. If they do not go far enough, surely the ingenuity of our tax experts can expand these areas of relief to encompass even more cases.

A month ago, when Responsible Wealth issued the [ACall to Preserve the Estate Tax](#),@ the conventional wisdom was that the estate tax would be completely repealed. I am here to advocate for reform of the estate tax -but not wholesale repeal.

I believe that the original intent of the estate tax--to be a dynasty tax--should be preserved and strengthened. We should have a tax that falls primarily on the vast transfer of financial assets. Fix it, don't repeal it.

Thank you for the opportunity to appear before this panel.

